THE 1.2 FUND LUX
MONTHLY RETURN

The 1.2 Fund Lux – *Overview*

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- *UCITS IV Fund*
- *Long/short option strategy*
- *1.2% monthly target return*
- *Long options and futures utilised for hedging*
- *Daily NAV*

The 1.2 Fund Lux is a UCITS IV, an International Equity Index Option fund providing the investor with an alternative strategy to gain exposure to the S&P 500 Index. The fund generates returns via options positions on the S&P 500 Index. Exposure to the index is gained through a range of structures utilising both long and short positions seeking to achieve a monthly return of 1.2% net of fees.

History and concept

The 1.2 Fund Lux was launched in June 2014 with the objective of replicating an already successful offshore fund, onshore, under the jurisdiction and regulatory control of Luxembourg. In an era of greater financial transparency the managers decided it was important to have an investment vehicle which embraced current investor and regulatory needs. The 1.2 Fund Lux is a sub fund of the SICAV under Luxembourg law Julius Baer Multipartner, established for Option Solutions LLP, London by GAM (Luxembourg) S.A. Investment management.

The 1.2 Fund Lux aims to achieve steady monthly returns based on a low volatility model. The concept was developed from the fund managers' collective 20 years' experience of trading options. Experience in the field enabled them to identify the common hazards of options trading (over leverage/unrealistic returns) in determining a realistic monthly return.

The managers decided to set a monthly target return of 1.2% net of fees, a target considered to be the ideal risk to return ratio, achievable in rising, declining as well as stable market conditions.

The exsisting BVI fund has a proven track record of delivering returns in varying market conditions and is therefore largely independent of market directional risk.

What is the objective of the fund

The Funds objective is to generate performance, irrespective of market conditions through the control of volatility. To achieve this aim, The 1.2 Fund Lux combines actively managed short option positions and specific hedges designed to protect the portfolio and minimise negative drawdown.

- *Market neutral dynamic approach*
- *Only trade highly liquid instruments*
- *Absolute return fund*

Why invest in The 1.2 Fund Lux?

- Gain exposure to the world's most widely followed and liquid financial benchmark equity index;
- Daily NAV;
- Use a financial tool that accommodates a range of strategies, different market environments and can be applied in multiple market conditions;
- Low margin utilisation;
- No initial charge or withdrawal fee;
- Easily manage your investment with daily top up facility and "No Lock Up";
- Potential long-term growth.

The opportunity

The majority of active investors in equity or bond markets focus their efforts on directional trading, often requiring either excellent timing or long time horizons. The 1.2 Fund Lux is a market neutral fund with a simple yet dynamic approach. The strategy of the fund has a set process that evolves throughout each trading month enabling it to exploit the changing market conditions.

Why S&P 500 Index

- Leading global equity index;
- Liquid options market;
- E-mini contracts allows almost 24hr trading and hedging;
- High initial margin requirement compared to European indexes creates an external constraint and prevents the fund from excessive leverage.

Liquidity

The decision to trade on the S&P 500 was driven by a desire to trade a highly liquid derivative instrument. Liquidity is particularly important when it comes to closing positions quickly under fast moving market conditions to ensure fair prices are achieved.

Absolute return

The 1.2 Fund Lux aims to deliver positive absolute returns in all markets, rather than outperformance in reference to a benchmark index. Investors should understand that the performance of this fund will not necessarily move in line with general stock market trends.

Investment *philosophy*

Trading strategy

The strategy of The 1.2 Fund Lux is to invest in short and long option strategies on the S&P 500 futures index, employing an active management to market exposure and risk.

The fund predominately trades front month expiry and aims to hold a balanced exposure to upside and downside market movements. The fund employs the use of futures and long options to act as insurance to minimise the potential draw down from extreme market movements to both the downside and upside.

The 1.2 Fund Lux targets a positive absolute return of 1.2% net of fees per month and 15% per annum on a compounded basis. In the event that the target return of 1.2% is achieved prior to expiry the fund manager has the option to close out all remaining positions and maintain a flat position until the beginning of the subsequent expiry.

The decision to close positions early once target return is achieved is a balance between risk and profit maximisation. This balance varies each month, however the managers' priority is always to minimise risk versus returns.

Investment process

The strategy is dynamic and evolves throughout the expiry as market conditions change. The managers aim to minimise market exposure and look to exploit market movements. The strategy implemented by the Investment Managers creates returns by exploiting volatility and by the natural time decay process exhibited by options every month.

The portfolio is constantly monitored in real time and modelled under differing market conditions in order to determine if positions need to be adjusted.

We aim to achieve return via a disciplined, staged process, combining top down macro analysis of the global economy with technical analysis and strict risk management designed to help protect the fund against any unexpected downside or upside risk.

The fund managers follow the same tried and tested methodology in determining the optimal portfolio for each expiry relative to target return and market volatility.

- *Option strategy focused on S&P 500 Futures Index*
- *Portfolio hedging*
- *Up to 15% annual target return, dependant on market conditions and volatility*
- *Priority to minimise risk vs return*
- *Market neutral dynamic approach*
- *Maximun 2x leverage*
- *Only trade highly liquid instruments*

The investment *process*

Idea generation

Top down Analysis

- Fundamental macro-economics
- Global investment themes
- Risk factors going forward

Technical analysis

- Trend definition
- Key support and resistance in-dentification
- Moving Averages / MACD
- Fibonacci retracements and extensions

Portfolio Modelling

Stress test portfolio's under varying degrees of risk, volatility and changing price

Portfolio Construction

- Risk return evaluation
- Liquidity management
- Exposure level

Portfolio Monitoring and Risk Management

- Portfolio management level
- Margin, Delta and Gamma control
- Internal and External control

Position *management*

- *Global market analysis*
- *Flexible target return based on monthly risk analysis*
- *Portfolio simulation and modelling*
- *Portfolio stress testing*

1. Idea generation

Each month the fund managers try to determine the overall market consensus on the state of the global economy, the key drivers and risk factors going forward. Analysis is based on each manager's view, drawn upon our own experience and supplemented by independent third party market research from global financial institutions and news providers.

The current level of the market, the recent trend, level of volatility and state of the global economy, are all key factors in deciding the fund's portfolio to achieve target return. In determining the Fund's net exposure we analyse the risks relative to reward.

For example risk factors include the level of volatility and vulnerability of the market to external shocks. If the level of risk is too great relative to required return it is possibly for the managers to decide on a lower monthly return level in order to reduce risk and protect investor's assets.

2. Portfolio simulation

Once the outlook on the market has been determined and the target parameters set for the month, the managers will run portfolio simulations. The portfolio simulations are a vital aspect of risk control, as it gives the managers the chance to stress test the portfolio positions at different price levels, degrees of volatility and varying time frames.

3. Portfolio monitoring

Once the strategy for the month is determined the portfolio is constructed with trading taking place directly via our broker, online trading platform and the CME floor traders. The proven approach to portfolio construction for the fund is to scale into positions allowing the managers to remain dynamic in the event of changing market conditions. The managers also try to maintain a high margin of spare capacity to allow for the exploitation of market volatility. Risk and position management are paramount to the operation of the fund's portfolio and active management style.

Position management

Position management is a major priority of the fund managers. During the idea generation and modelling process, extra attention is placed on the determination of specific strikes to trade, size of position in each strike and trigger points for action to either increase or decrease exposure.

The utilisation of mostly front month options aims to allow the managers to commence each expiry with a flat or small position as well as aiming to be 100% liquid at the end of each expiry period. The position management strategy prioritises the choice to minimise risk instead of maximise yield.

The managers gradually build a balanced portfolio whilst aiming to remain market neutral and avoid the risk of becoming inherently too bullish or bearish. In the case of extreme movements the managers will look to exploit market skew.

For all short positions a decision has to be made whether to hold until expiry in order to maximise premium or close out prior to expiry once the value of the option has decreased substantially. When we deem the risk of remaining in the market with a particular position to be higher than the potential benefit we will close out that position prior to expiry.

All positions are monitored in real time on the basis of their individual parameters (Delta, Gamma, Vega and Theta) and collectively as a portfolio. The risks are monitored and scenario analysis conducted throughout the expiry to determine the funds overall risk.

Decisive decision making is an important characteristic to managing options and when a position is offside it is important to react pre-emptively. Rules as to the size of loss on a particular strike are applied by the manager for example adjusting or closing a position if the premium of an individual strike has doubled or within a risk defined percentage of the at-the-money (ATM) strike.

Stop losses are also a vital aspect of position management. the trigger for deleveraging the portfolio has been established at 3%. Invariably the managers have already commenced adjusting positions prior to this trigger, however in the event of a “gap” or “black swan” event as soon as this level is breached positions will be cut or the portfolio closed out. Once the deleveraging has commenced the managers aim is to contain the total loss within 5%.

- *Predominantly trade front month options ensuring no market bias*
- *Aim to be 100% liquid on technical expiry*
- *Scaling in and out of portfolio*
- *Deleveraging of portfolio and stop loss enforced*
- *Exploit volatility skew*

Risk *control*

- *Strong focus on risk control*
- *Low average margin utilisation*
- *Real time portfolio monitoring*
- *3% Stop loss trigger*
- *Maximum 2 times leverage in line with the UCITS directive*
- *Implementation of protective hedges*

All financial investments involve an element of risk. The management and control of risk is the primary function of the managers of The 1.2 Fund Lux. It is the belief of the managers that a strong focus on risk control is the essential element to performance in the long-term.

Risk control is broken down into two areas:

- Internal risk control/parameters
- External risk control

Internal risk control

Internal risk control is focused on position management and margin control. The fund managers closely monitor the market throughout the expiry to ensure the portfolio performs to the set target and remains balanced against risk as market conditions change. The individual positions and the strategy as a whole are constantly evaluated to ensure that it remains within the funds risk parameters.

The managers aim to ensure at all times that the following risk parameters are enforced;

- UCITS risk metrics are complied with at all times.
- Position is adjusted if leverage exceeds 50% of Net Asset Value.
- Position is deleveraged if leverage exceeds 75% of Net Asset Value.
- Aim to maintain leverage below 100% of Net Asset Value.
- Ensure leverage never exceeds 200% of Net Asset Value.
- Portfolio is Stopped Out if a loss exceeds 3% even if leverage remains within risk parameters and managers aim to ensure maximum loss is contained within 5%.
- The position is not concentrated too highly in one strike to avoid potential liquidity constraints.
- The fund managers aim to maintain an average margin allocation below 50% of the fund's Net Asset Value.

Our Proprietary software updates in real time all the risk parameters in terms of profit and loss, Delta, Gamma, Vega and Theta. During the construction of the portfolio the managers intend to maintain a balanced position between upside and downside risk, for this reason it is vital to understand how the individual positions affect the dynamics of the portfolio as a whole.

Futures, Call and Put spreads are all utilised for hedging the portfolio and reducing risk. Automatic trading stops in the E-mini S&P Futures are used to control delta 24 hours a day and protect the portfolio against event risk.

Throughout the individual expiries, as the market evolves, the portfolio is continually stress tested to ensure the current positions are suitable and a proactive management style ensures adjustments are made timely where necessary.

Margin control is strictly monitored, as experience has shown it can often be the first warning signal when positions are wrong. The aim of the managers is to maintain an average margin allocation of below 50% of the fund's assets.

Hedging the funds positions is extremely important, the use of futures and long options enables flexibility in the management of positions and containment of potential losses during periods of extreme volatility. The flexibility develops from the fact that the futures and long options protect the short position, allowing the managers time to make adjustments to the portfolio if required and avoiding forced action at times of extreme price movements. The use of hedging instruments not only serve as protection for the portfolio but in certain circumstances can also enhance performance.

External Control

The external risk control adds to the internal one by providing an additional layer of protection on the capital of the investors. The management company, CSSF, broker and auditor, all have an important role in ensuring that the Fund is managed according to the strict limits, imposed by both the UCITS law and the Offering Memorandum.

Management Company

GAM is the management company of The 1.2 Fund Lux and all the other compartments of the Julius Baer Multipartner SICAV. The Management Company is responsible for monitoring compliance with the Investment and Administrative Guidelines as well as with all applicable Legal Requirements, Fund Documents and additional Fund specific internal investment guidelines. They report guideline violations to the relevant Boards of Directors, supervise adequate mitigations against violations and decide on the handling of exceptional cases.

The Investment Controlling unit of the Risk Department of GAM is the primary responsible for monitoring on a daily basis wether the Investment Manager complies with all applicable legal investment requirements, Fund documents and additional Fund specific internal investment guidelines.

- *CSSF supervision*
- *GAM external monitoring*
- *Annual audit*

Independently of GAM Investment Controlling, the Depository Bank (State Street Capital) is also responsible for controlling the adherence to legal regulations and the rules set out in the relevant Fund documents. In case of detected breaches, the Depository Bank will inform the Investment Controlling unit of the Management Company.

Violations against investment guidelines are categorized either as active breach or as passive breach:

Active breaches occur as a result of a non-compliant transaction initiated by the Investment Manager (e.g. purchase of a non-permitted investment, purchase of a security in an amount which results in a breach of a certain limit, etc.).

Passive breaches occur as a result of market fluctuations, rating downgrades, removal of certain issuers from a benchmark or large subscriptions/redemptions, etc. Such events can lead to breaches without any transaction initiated by the Investment Manager.

CSSF

The Commission de Surveillance du Secteur Financier is the organism responsible for the financial regulation in Luxembourg; should the fund incur in an active breach the Management company will have to inform the CSSF that will act accordingly.

Broker

Our broker is an important partner to the fund and we pride ourselves on the strong relationship we have built over the years. They maintain a strong commitment to the fund and assist in providing timely execution and risk data. They operate the standardized portfolio analysis of risk (SPAN) system as well as their own internal risk controls and procedures. The Span system is the leading margin system which has been adopted by options and futures exchanges around the world. SPAN is based on a sophisticated set of algorithms that determine margin according to a global (total portfolio) assessment of the individual portfolio of risk.

Auditor

Price Waterhouse Cooper is the auditor of the Fund and will complie the annual audit; they are informed by the Management company of eventual active breaches.

Fund
information

Fund highlights

- UCITS IV Fund
- Daily NAV
- Absolute Return Strategy
- Maximum 2x leverage
- No OTC instruments for investment purposes
- External and Internal Risk Control
- No Equalisation (Absolute High Water Mark)
- Use of long options and futures for portfolio hedging
- No side pocket
- No suspension or delay of redemptions
- External Independent Service Providers
- Priority to minimize risk instead of maximizing yield

Key facts

- Legal Status: Luxembourg UCITS IV Fund
- Inception Date: 30/05/2014
- Share Classes: Retail (B) and Institutional (C)
- Fund base currency Euro
- Share Currencies: EUR and USD (Hedged)
- Dealing: Daily
- Liquidity: Daily
- Minimum subscription B Class: 1 share
- Minimum subscription C Class: 100,000 EUR or USD
- High Water Mark: Absolute
- Management Fee B Class: max 2.00%
- Management Fee C Class: max 1.00%
- Performance Fee: 20%
- Subscription Fee: none

Our *Contacts*

Administrator, Custodian and Transfer Agent

State Street Bank Luxembourg SA
49, Avenue J.F. Kennedy
L-1855 Luxembourg
Tel: +352 4640 101

Management Company

GAM Investment Management
25, Grand Rue
L-1661 Luxembourg
Tel: +352 2648 4401

Supervisory Authority

Commission de Surveillance du Secteur Financier("CSSF")
110, Route d'Arlon
L-2991 Luxembourg
Tel: +352 2625 11

Auditor

PriceWaterhouseCoopers Soc. Coop.
400, Route d'Esch
L-1471 Luxembourg
Tel: +352 4948 481

Investment Manager

Option Solutions LLP
4th Floor, Millennium Bridge House
2, Lambeth Hill, London EC4V 3TT
Tel: +44 20 7716 8139
Email: info@option-solutions.com

Investment Manager Contacts

Paolo Compagno - Trading Strategy
T +41 79 231 14 11
E p.compagno@option-solutions.com

Andrea De Lorenzo Smit - Trading Advisor & Client Relations
T +41 79 796 67 46
E a.delorenzo@option-solutions.com

James Manson - Trading, Research and Risk Control
T +44 7785 736 784
E j.manson@option-solutions.com

Marco Compagno - Marketing & Client Relations
T +41 79 738 5484
E m.compagno@option-solutions.com

Codes

- ISIN (€ B): LU1030377359
- ISIN (€ C): LU1030380221
- ISIN ($ B): LU1030377862
- ISIN ($ C): LU1030380577
- Bloomberg (€ B): 12 FOSEB
- Bloomberg (€ C): 12 FOSEC
- Bloomberg ($ B): 12 FOSUB
- Bloomberg ($ C): 12 FOSUC